

BOOK REVIEWS

Public Policy. Ed. by C. J. Friedrich and E. S. Mason. Cambridge: Harvard University Press, 1940. Pp. xiii, 391. \$3.50.

Public Policy is a new yearbook, representing the tone of conversation and research at the Graduate School of Public Administration at Harvard. We are told that at Cambridge they have almost "integrated" the so-called social sciences. Economists and students of government, lawyers and political theorists live and labor together on problems of common interest, cheerfully sharing their several mysteries. Despite the idyllic propaganda, however, the first product of this association is healthy and interesting.

Viewed as a whole, the collection leaves one strong impression. The contributors are surprisingly united in their interest and in their conclusions. They are concerned chiefly with the changing relation of the American state to the life of the American economy. Almost all the essays are addressed to the decisions of domestic policy which confronted the government in the doldrum period of the New Deal, just before the war. Commenting on the problems of that remote time, the contributors to *Public Policy* accept it as axiomatic that the state has a heightened responsibility for trade, employment, and economic welfare generally. By and large, they are optimists in agreeing that the state has at its disposal political instruments with which such an enlarged responsibility can be fulfilled; they are gradualists in contending that a measure of stability in employment could have been achieved in pre-war United States (and may be hoped for in the post-war commonwealth) without great changes in the institutional or political fabric of society.

On the economic side, this conception of an appropriate Grand Domestic Strategy for the American government emerges mainly in the essays by E. S. Mason, Donald Wallace and A. H. Feller, perhaps the strongest group of papers in the book. All three are preoccupied with price behavior and price control. Yet the conclusion they assert is that from the point of view of employment in the whole economy, price policy¹ is of secondary importance.

The view these men take of the economics of employment, the starting place of their argument, is one now generally familiar as orthodox learning. The difference between a boom and a slump in this society, the story goes, depends on the rate at which investments in capital equipment are undertaken. The modern economy was built in an irregular series of rushes of investment, the responses of enterprise to a variety of stimuli: the Napoleonic Wars and the discovery of gold in California, Alaska and the Transvaal; the Civil War, the World War and the building of railroads. These accidents had great and beneficent economic consequences for one reason only; they all resulted in intense investment, full employment, and therefore in rapid expansion of output and of capacity. Expansion of this kind can be attained without the tragedy

¹ By price policy I mean the totality of the ways in which government affects the prices of goods: patent laws and anti-trust laws, tariffs, purchases, labor laws, and agricultural program.

of war, or the melodrama of a gold rush, but only by a careful coordination of all the aspects of government behavior which may affect the rate of investment. In such a program for increasing and stabilizing employment, prices are significant in relation to other economic factors. "High" prices in a competitive sector of the economy may signal high profits, and therefore a tendency towards expansion among private interests; on the other hand, "high" prices may represent the assertion of monopolistic power, and the effective throttling of impulses in the direction of enlarged production and employment. The amount of employment, the crucial object of public economic policy, is a function of investment, and the organization of industry is important to employment insofar as it influences investment. It follows that the primary political instruments needed to fulfil a program of expansion are those which most directly concern investment and employment: the budget, the banking system, the tax laws and the laws affecting corporate action and the securities markets. Policy towards competition may be a vital influence for or against expansion; it is widely believed, for example, that monopolistic organization in industry intensifies slumps, and restricts the forward movement during booms. What Mason and Wallace and Feller urge is that price policy cannot be expected to produce booms alone.

Yet the fact that in this book twice as much space is devoted to competition as to monetary and fiscal policy is not an accident. It reflects the deep-seated American belief, only now being modified, that the root of all economic troubles is the system of Big Business: that is, the prevailing pattern of concentrated ownership and non-competitive organization in industrial life. The consequence of this view has been that both students and statesmen have devoted themselves to problems of economic organization—to the law and economics of combinations in restraint of trade, in particular—often to the exclusion of other issues of public economic policy. This was a natural attitude during the first thirty years of this century, a time when prolonged depression seemed to have disappeared. And as a result we were taught to consider the public control of business as primarily a problem in the control of competition, either through administrative agencies regulating public service monopolies, or in the lively trial-by-combat of the anti-trust laws. Casebooks and texts on the subject contain little beyond the law of competition. Popular writing, as always, is a battle of slogans. The evils of unregulated competition—the law of the jungle, we are sometimes told—are compared with the friendly cooperativeness of life in a trade association. "Under-consumption" and "over-production" are identified as the twin sins of the competitive system, and higher wages prescribed as the remedy. The periodic slumps of the economy are said to call for heroic remedies, involving "reorganization," "planning," "orderly control"—favorite ambiguities which in many formulations turn out to identify only simple and familiar schemes of cooperation among business men (and sometimes among trade unions as well) for fixing prices, wages and output.

The lesson of the economic essays in *Public Policy* is that the perspective in which problems of price control are considered must be enlarged. Price policy is a vital part of public policy, but it is not the only way in which the state intervenes in the economic life. Our society is suffering a crisis of economic initiative. The traditional entrepreneur groups have failed, for one reason or another, to utilize resources to the full, and as a consequence we are all engaged in the disturbing effort to get used to life in a world where enterprise is both public and private. The conception of laissez-faire embodied in the anti-trust laws, and in the works of J. B. Clark, may be inadequate for the econ-

omy of our day (if, indeed, it has ever been realistic). The state is not an umpire enforcing rules of the game in an autonomous and automatic economic system. For better or worse, for the duration of the war and beyond, we must accept the premise that the state is an active participant in the life of the economy, saddled with a considerable direct responsibility for employment. Competition is no longer its chief interest in connection with business; and it is no longer possible to consider a policy for competition without also considering the other vital ways in which the economic decisions of the state are manifested: its budgets, its taxes, immigration policy, and policy with respect to the birth rate, the rate of interest and the rate of exchange. What Mason, Wallace and Feller contend, and very tellingly, is that the choice of a policy for competition cannot be made without also deciding on a policy for investment and employment. They offer no panaceas, and preach the need of more study, in a wider perspective, before satisfactory solutions can be proposed. But they know that imperfect knowledge is no excuse for not meeting the challenge of everyday life, and they make many detailed criticisms of the course of events. All three feel that enforcement of the anti-trust laws is a better general policy than any known alternative, not for the pleasures of trust-busting alone, but as part of a larger program of expansion, which provides for public expenditure, and other forms of stimulus or subsidy for private expenditure. The three essays proceed by different routes, but come to the same general conclusions. Mason makes his point in the course of an analytical description of the choices before us with respect to a policy for competition. Wallace, in an outstanding essay, investigates representative attitudes towards competition, and presents his own view of the issues fully and clearly. Feller undertakes a brief survey of the entire field of industrial control, and thus places the traditional problems of government price policy in a realistic setting.

These three papers dramatize a fact which may surprise many lawyers: a large number of contemporary economists agree about vital phases of public policy. These men are participants in an intellectual tradition which has all the characteristics of a School. Its members are generally expansionist in monetary policy, they favor competition in business, and a restoration of world trade; they are democrats in social and political attitude. They provide, of course, through spokesmen like Keynes, Copeland, Hansen and Alvin Johnson, much of the background for progressive political action in all the democratic countries. As yet there has been no general statement of the intellectual universe they envisage, comparable to *The Wealth of Nations* or *Das Kapital*. The economic essays in *Public Policy* do not offer panoramic sweep, but they are excellent examples of the way in which the attitudes, prejudices and techniques of this School may be applied to practical problems of policy.

The book raises further questions both of economic policy and of political method. John P. Miller's paper, "The Pricing of Bituminous Coal," is meticulously conceived, and adds some light, especially on the theory and practice of that neglected mammoth, the Bituminous Coal Act of 1937. As a criticism of the act, it suffers a little through limitation of scope. In a book called *Public Policy*, it is not too much to expect that the contribution about the coal problem take sides on the question of whether or not the act should be renewed when it expires next spring. Miller preserves an icy academic neutrality. There are several papers on public administration, and two on public finance, Merle Fainsod's comments on the politics of the regulatory process being particularly interesting. The volume does not pretend to treat its theme systematically, and some

of the most pressing issues of public policy—government spending, international economics, wage policy and tax reform, for example—are dealt with sketchily, if at all. It is, in short, a miscellany, and not a symposium on the major issues confronting government. It is not less suggestive or useful for that.²

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Government and Economic Life. By Leverett S. Lyon, Myron W. Watkins, Victor Abramson, and Associates. 2 vols. Washington: Brookings Institution, 1939 and 1940. Pp. xvi, 519 and xi, 780. \$3.00 and \$3.50.

The ambitious purpose of this study is "to analyze the relationship of government to economic life as a whole in terms of fundamental economic and social functions and fundamental government activities."¹ "Economic life" as used covers much more than "business." It includes the activities of business firms, of course, but also all other activities by which any goods or services are produced or made available. In this broad sense it is, of course, a great segment of the total culture, and the relations between it and government have been of first-rate political and practical importance since the industrial revolution, and before. Not only is public law surcharged with these relations, but a great part of our private law consists of nothing else. What is contract but a business deal for which government provides a remedy? Full treatment of the total picture would require analysis of half of *Corpus Juris* and of all that which used to be called Political Economy.

The Brookings authors have not been so foolish as to take on that job. Specifically, they have left out the law of property and contract, have said nothing about the tort liabilities of business firms (except unfair competition and restraint of trade), and almost nothing about crimes by or against business, except as criminal penalties are used to enforce specific regulations. There is little theoretical economics in the book, and "government" means government in the United States, not everywhere.

Even with these omissions, the subject covered is large, diverse, and complicated. Within the scope of a review I can do no more than indicate the chapter headings. The field is first divided into two major areas, one where government itself is the producer, and the other where the main job of production is left to private enterprise. The latter is first taken up and is again divided into two areas, one where the law is general, applying to all industries, and one where it is special to a single field. General laws are first examined, commencing with those that make it easier for businessmen to operate.

Of this type of general law there are treated in some detail six examples: organizational forms for business enterprise, bankruptcy and reorganization procedures, patent rights, a monetary mechanism, mechanisms to adjust labor disputes, and the provision of standards and of information. The initiated will appreciate at once that each of these topics is full of dynamite; here all six must be treated in two hundred pages. The

² A minor point: while a yearbook is preferable to yet another journal, both to concentrate subject matter and to avoid excess book reviews and binding costs, the editors should see to it that their material is indexed in the guides to periodical literature, or their annuals will suffer the dark destiny traditionally reserved for *Festschriften*.

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¹ Vol. I, p. ix.